

COMMONWEALTH OF MASSACHUSETTS

DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

Investigation by the Department of Telecommunications
and Energy to establish a surcharge to recover prudently
incurred costs associated with the provision of wireline
Enhanced 911 services, relay services for TDD/TTY users,
communications equipment distribution for people with
disabilities, and amplified handsets at pay telephones.

D.T.E. 03-63

INTERIM SURCHARGE PROPOSAL

SUBMITTED BY:

Verizon Massachusetts
Statewide Emergency Telecommunications Board

DATED: June 13, 2003

I. Overview

On May 29, 2003, the Department opened this investigation to establish a surcharge to recover prudently incurred costs associated with the provision of wireline enhanced 911 service ("E911"), relay services for TDD/TTY users, communications equipment distribution for people with disabilities, and amplified handsets at pay telephones. *Notice of Investigation*, at 1. As stated in that Notice, the surcharge will be established pursuant to Chapter 239 of the Acts of 2002, proposed regulations (220 C.M.R. §§ 16.00 et seq.), and Massachusetts General Laws c. 159, § 12(d). The proposed regulations are the subject of a Department rulemaking in D.T.E. 03-24. Once the surcharge is determined, it will appear on retail customers' telephone bills.

In this proceeding, the Department requests that Verizon Massachusetts ("Verizon MA") and the Statewide Emergency Telecommunications Board ("SETB") provide estimated data to determine an interim surcharge. *Notice of Investigation*, at 2. The Department specifically requests the following data: (1) estimated program costs; (2) estimated line count data; and (3) the estimated total deficit to be recovered through the surcharge for each year of the five-year program (January 1, 2003 through December 31, 2007). In addition, the Department requests that Verizon MA and SETB submit a proposal for an interim surcharge, as well as a cash-flow analysis that identifies expenses and revenues for each year of the five-year program at the proposed surcharge amount - and at five and ten cent increments above and below the proposed surcharge amount. Finally, the Department requests that SETB and Verizon MA include a narrative explaining the proposal(s) and data submitted.

In this filing, Verizon MA and SETB propose an interim surcharge of \$.85. That surcharge would recover the costs associated with the provision of E911 and other services described above, as well as a portion of the existing deficit for the provision of such services prior to January 1, 2003, in accordance with the Department's directives. As demonstrated below, on Attachment A, and on Exhibits 1 and 2, this is a reasonable charge based on the estimated expenses over the five-year recovery period. The cash flow analysis requested by the Department is included as Exhibit 2.

II. Summary of Estimated Expenses and Projected Cost/Revenue Analysis

All estimated expenses, revenues, and customer line count data used in developing the proposed interim surcharge are based on the Commonwealth's fiscal year period, ending June 30th each year.

The proposed interim surcharge is developed based on the assumption that billing for the surcharge will begin on September 1, 2003. As a result, the proposed interim surcharge is intended to recover the costs incurred between January 1, 2003 and September 1, 2003, by the end of the 2004 fiscal year, *i.e.*, June 30, 2004. In addition, the five-year recovery

period (from January 1, 2003 through December 31, 2007) is reduced to 52 months (from September 1, 2003 through December 31, 2007).

The source of the customer line count data is Verizon MA's year end 2002 update to the Massachusetts Competitive Profile, filed February 19, 2003 in D.T.E. 01-31 Phase I. Based on that data, Verizon MA estimated the total number of access lines served by all carriers, including Verizon MA.

This filing includes six categories of costs associated with the provision of E911 and disability access services. They are: (1) E911 provisioning costs; (2) SETB expenses; (3) Relay Services and Disabilities Access Program costs; (4) deficit recovery expenses; (5) carrier administrative costs; and (6) uncollectible revenues. These costs are described below and identified on Exhibit 1. A line by line explanation of Exhibit 1 is provided in Attachment A to this filing.

E911

This category includes the expenses that will be incurred by the SETB in the provision of E911 service to customers throughout the state. This includes the E911 data center, network services, network maintenance, and the operations of the service response center. All subcategories, with the exception of Capital Upgrade, are based on current tariff rates for the services [Tariff DTE No. 12, Part E, Section 2].

The estimate of Capital Upgrade is based on SETB's intention to upgrade all PSAP positions in the state and an estimate of the cost of that upgrade. The SETB has begun the procurement process for this equipment and a more precise estimate of the total costs and implementation schedule should be available in early 2004.

SETB Expenses

The expenses in this category, provided by the SETB, are associated with the personnel, training, outreach and administrative costs of SETB.

Relay Services and Disabilities Access Programs

This category includes: (1) Telephone Relay Service provider costs associated with the actual billing of calls per completed call minute; (2) costs associated with outreach, education and administration, such as training, communications access (e.g. interpreters), printing of outreach support material, data analysis, data base management, customer surveys, and the development and delivery of methods and procedures; (3) quality monitoring; and (4) costs for specialized customer premise equipment (SCPE), which includes the expense associated with supplier cost of equipment provided to customers and costs associated with repair of equipment provided to customers. These costs are projected using current contracts, expected replacements of TDDs and other adaptive equipment over the five-year period.

Deficit Recovery

Since 1995, the expenses associated with the provision of E911 and disability access programs exceeded the revenues received from Verizon MA's residence directory assistance charges. This created a deficit within the previous funding mechanism. Both the statute and the Department's proposed rules state that a portion of the deficit can be recovered via the surcharge. This category identifies the deficit that remains after Verizon MA's residence directory assistance revenues are projected through the end of the five-year planning period.

Carrier administrative costs

This category provides for the one percent administrative fee, in accordance with the Department's proposed rules [220 C.M.R. 16.04(1)].

Uncollectible revenues

The Department's proposed rules [220 CMR 16.03 (8)] anticipate that a portion of the surcharge billings by carriers will remain uncollectible. This category contains an estimate of the uncollectibles that will be incurred by the carriers in the collection of the surcharge.

Line by Line Explanation of Exhibit 1

Lines 1-5

These lines illustrate the annual costs of provisioning E911 based on the tariff rates and the current number of records in the E911 database and Public Safety Answering Points ("PSAP"). Column A reflects the estimated costs from January 1, 2003 through June 30, 2003. Column B shows the estimated costs from July 1, 2003 through June 30, 2004. The remaining columns illustrate the E911 costs for the future fiscal years, assuming no change in the number of records in the database or the number of PSAPs.

Line 6

This line includes an estimate of capital costs that will be required to update the Massachusetts E911 system. Inclusion of these projected costs is consistent with the Department's proposed rules [220 C.M.R. 16.03 (4)(c)]. The estimated costs are associated with an upgrade of each PSAP position across the state. The costs are based on an estimate of \$85,000 for each of the approximately 800 call answering positions at the 274 PSAP locations.

It is projected that the total will be collected over 42 months, beginning July 1, 2004. This time period was chosen because: (1) the capital upgrades are not expected to begin until fiscal year 2005; and (2) the estimated costs will be more precise as the SETB completes its procurement process for those upgrades. The actual expenses for these upgrades will also be influenced by the implementation schedule, which the SETB has not yet determined.

Line 7

The costs shown on line 7 are for SETB expenses. The SETB agency has projected these costs through December 31, 2007 based on a base figure of \$1.7 million in fiscal year 2004 and 5% growth in subsequent fiscal years. (This figure represents 50% of the total projected SETB agency expenses in fiscal year 2004, with the remaining balance being charged against the wireless Enhanced 9-1-1 Fund.)

The SETB approved a total \$3.4 million appropriation for fiscal year 2004 at its May 28, 2003 meeting as follows:

Salaries & Benefits	\$1,624,003
Physical Plant	1,173,700
Training Program	300,000
Public Education	100,000

Office Expenses	83,400
Travel	63,000
Consulting Services	50,000

Lines 9-13

These costs are described in the Relay Services and Disabilities Access Programs section above.

Line 15

This line demonstrates how the deficit from the existing funding mechanism will be recovered during the planning period. Through December 2002, the deficit totaled \$43.1 million. That deficit, along with \$381,000 per year for capital expenditures for the current E911 system that are not yet fully depreciated, is reduced by the projected Verizon MA residence directory assistance revenues through December 31, 2007. These revenues were projected based on the average change in Verizon MA Directory Assistance billable calls over the past 7 years (a reduction of 11.66%). In addition, an annual rate of interest, equivalent to the current prime rate less 50 basis points (4.17%), consistent with the methodology used in the Annual Tracking Report, is also applied. As a result, it is projected that the surcharge will need to recover \$31.2 million in order to fully recover the deficit over the five year planning period.

Line 17

The Department's proposed rule [220 C.M.R. 16.04(d)] allows the carriers operating in the state to collect an administrative fee for collecting the surcharge from end users. This reflects an estimate of this administrative fee.

Line 18

Line 18 represents an estimate for uncollectible revenues. Since the proposed surcharge will be assessed against residential and business lines, the factor used to estimate the uncollectibles is a composite number based on Verizon MA's 2002 uncollectibles.

Line 20

In order to estimate the total number of access lines for all carriers Verizon MA used the updated Massachusetts Competitive Profile provided in February 2003 (DTE 01-31 Phase 1). This provides access line count data on the same basis for all carriers pending the carriers filing of line count data contemplated in the Department's proposed rules [220 CMR 16.03 (4) c]. As with the total number of records used to determine the costs in Lines 1-5, the access line counts were not adjusted for positive or negative growth.

Line 21

Column I reflects the sum total of the expenses and capital overlay and calculates a surcharge based on a 52 month (September 2003 – December 2007) recovery period. The expenses and revenues for fiscal year 2008 are for six months (July – December 2007) to coincide with the planning period.